Background

When first founded in 1971, Law Enforcement Officers' and Fire Fighters' retirement system plan 1 (LEOFF 1) had no benefit cap. With the passage of Chapter 120, Laws of 1974, members' benefits were capped at 60 percent of final average salary (FAS). Those hired into LEOFF 1 positions on or after February 19, 1974 – the effective date of the act – are subject to the 60 percent cap. Those hired prior to that date, about half the remaining active members, are not subject to the cap.

State and employer contribution rates were suspended for LEOFF 1 in 1999 when the unfunded liability was eliminated. Member contributions were suspended the following year. Contributions are not required as long as the plan is in surplus funding status.

LEOFF 1 retirees are eligible for full medical coverage provided by their former employer at no cost to themselves.

(Note: The draft bill and fiscal note were unavailable at the time of the printing of this report. As soon as these documents are available, the on-line version of this report will be updated to include them.)

Committee Activity

Presentations:
- July 19, 2005 – Full Committee
- September 27, 2005 – Full Committee
- November 15, 2005 – Full Committee
- December 13, 2005 – Full Committee

Proposal:
- December 13, 2005 – Full Committee

Recommendation to Legislature

Repeal the LEOFF 1 benefit cap, reinstate member and employer contribution rates, and form a work group led by the Department of Retirement Systems working in concert with the Health Care Authority whose charge is to establish one or more funding vehicles for LEOFF 1 post-retirement medical benefits.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

LEOFF 1 Benefit Cap

(December 19, 2005)

Proposal

Representatives of active members of the Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF 1) have proposed removing or raising the cap that limits members' maximum retirement benefit to 60 percent of Final Average Salary (FAS).

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

Members Impacted

As was reported in the upcoming 2004 valuation, the LEOFF 1 plan had 848 active members and 8,542 annuitants as of September 30, 2004. Of these remaining active members, 454 are subject to the 60 percent benefit cap.

Current Situation

When first founded in 1971, LEOFF 1 had no benefit cap. With the passage of Chapter 120, Laws of 1974, members' benefits were capped at 60 percent of FAS. Those hired into LEOFF 1 positions on or after February 19, 1974, – the effective date of the act – are subject to the 60 percent cap. Those hired prior to that date are not subject to the cap.

Of the 8,542 LEOFF 1 annuitants counted in the 2004 actuarial valuation, 2,345 were service retirees who became members prior to February 19, 1974. Of those, 717 had a benefit that was greater than 60 percent of their FAS.

In addition to LEOFF 1 members hired on or after February 19, 1974, both the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 have provisions capping retirement benefits at 60 percent of Average Final Compensation (AFC).

Unlike LEOFF 1, the benefit cap in PERS 1 and TRS 1 was part of the original plan design, not added later. The Washington State Patrol Retirement System also has a benefit cap, but at 75 percent of FAS instead of 60 percent.

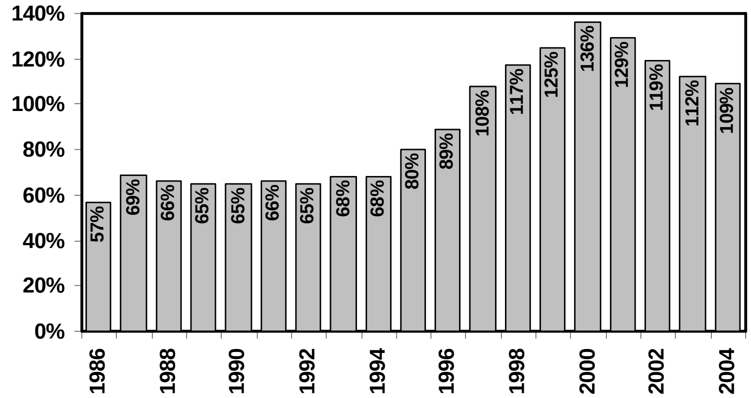
Unlike LEOFF 1, no LEOFF 2 members are subject to a benefit cap. LEOFF 2 uses a 60 month period for determining a member's FAS compared to the two-year average in LEOFF 1; members are also required to be age 53 to receive an unreduced benefit compared to age 50 in LEOFF 1. Despite the differences in the Plan 1 and Plan 2 provisions, both are still age-based plans.

The remaining Plans 2/3 also have no benefit cap and are age-based plans as opposed to the TRS 1 and PERS 1 designs, which are service-based. The School Employees' Retirement System (SERS), PERS, and TRS Plans 2/3 require members to be age 65 in order to receive an unreduced defined benefit.

Surplus Status

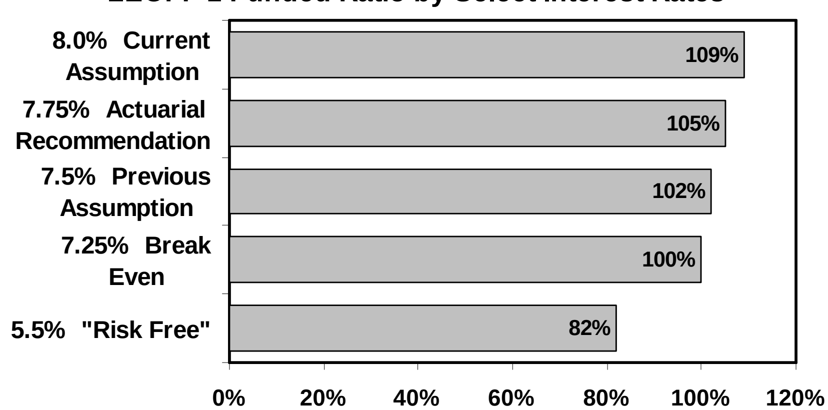
At the height of the previous investment cycle in 2000, the plan had a funded ratio of 136 percent (see Figure 1, below). At that point, the funding section of the chapter LEOFF 1 was amended to include the following provision: "No employer or member contribution is required after June 30, 2000, unless the most recent valuation study for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 indicates the plan has unfunded liabilities." For the most recent valuation period, the funding ratio was 109 percent.

Figure 1
LEOFF 1 Funded Ratio: 1986 - 2004



As seen in the above illustration, a plan's funding ratio can be volatile. It is subject to not only the vagaries of the investment markets, but also changes in the plan's economic assumptions as well. An example of this is the change in the assumed rate of return on plan assets; in 2000 the assumed rate of return was increased from 7.5 percent to 8.0 percent. By assuming a higher investment return on assets, fewer contributions are needed to cover its liabilities. Similarly, a given dollar amount of assets will represent a greater funding ratio under an 8.0 percent rate of return assumption than under a 7.5 percent rate of return assumption (see Figure 2).

Figure 2
LEOFF 1 Funded Ratio by Select Interest Rates

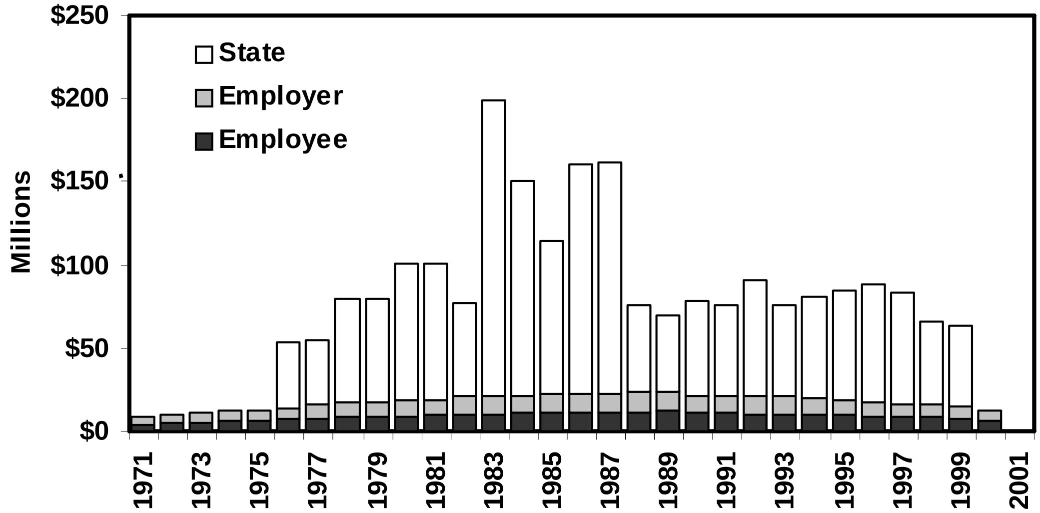


Contributions

When established on March 1, 1970, the LEOFF Plan 1 was to be funded through member, employer, and state contributions. The state's contribution was determined through the plan's first actuarial valuation performed by Milliman & Robertson, Inc. Consulting Actuaries. That valuation was completed on October 9, 1970. The report valued the current service liability of the system at 30.27 percent of salary and the unfunded liability for prior service at 14.89 percent of salary, for a total required contribution of 45.16 percent of salary. As the member and employer contributions were set in statute at 6.0 percent each, the state's contribution obligation in the first biennium was the remaining 33.16 percent of salary.

The state did not make contributions to LEOFF 1 in the first five years of its existence. But in the subsequent years, from 1976 through 1999, the state made the necessary appropriations and contributions (see Figure 3).

Figure 3
LEOFF 1 Member, Employer, and State Contributions



It is likely that the five-year delay in funding by the state resulted in a subsequently higher average contribution rate than the original recommendation. By the end of 2000, the state's contribution rate over the entire funding period averaged 40.4 percent of salary - over three-fourths of all the contributions to LEOFF 1 were state contributions (see Appendix A).

Active Member Profile

As was reported in the 2004 valuation, the average age of the remaining active LEOFF 1 member is 54.8 years and their average member service is 30.2 years. For members to be eligible for retirement in LEOFF 1 they need to be 50 years of age with at least five years of service. As of the 2004 valuation, only 62 members were not retirement eligible, 12 of whom were not vested. The following sections provide some additional detail on active LEOFF 1 members.

Category: The 848 active members are comprised of 408 police officers and 440 fire fighters. The majority of police officer active members are not subject to the benefit cap, while the majority of fire fighter active members are subject to the cap (see Figure 4). Among fire fighters, members from first-class cities represent the majority of active members; this is a departure from the police officer employer distribution and is likely a result of a greater use of volunteer fire fighters in rural areas.

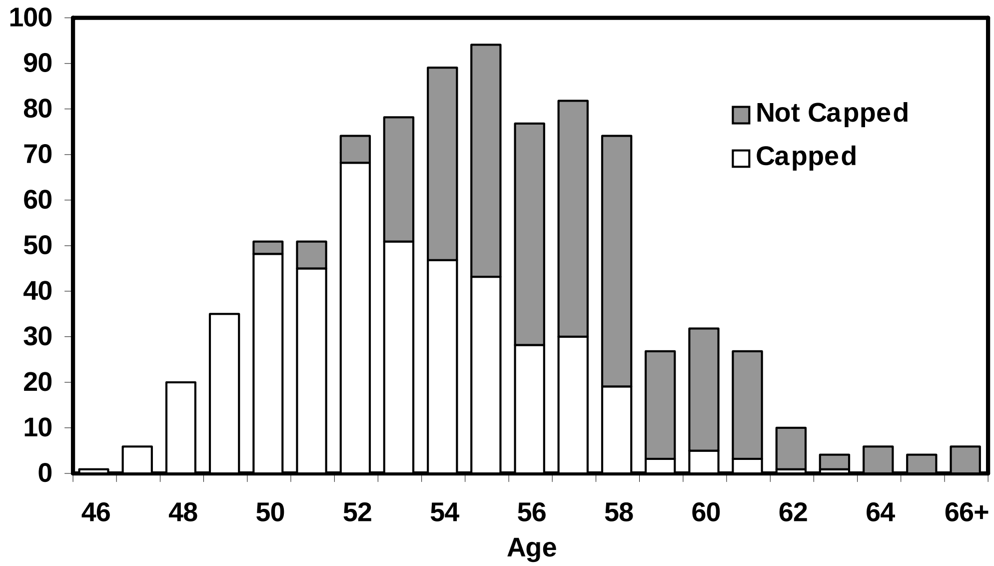
Figure 4

Active LEOFF 1 Members by Category, Employer, and Benefit Cap Status

	Not Capped	Capped	Total
Police Officers	210	198	408
1st Class City	101	75	176
Other City	42	71	113
County	67	52	119
Fire Fighters	184	256	440
1st Class City	114	121	235
Other Agency	66	130	196
Port	4	5	9
TOTAL	394	454	848

Age: Since the benefit cap legislation was prospective from February 19, 1974, it would hold that members subject to the cap would generally be younger than those not subject to the cap. While not all members were hired at the same age, records show that higher percentages of older members are not subject to the benefit cap (see Figure 5).

Figure 5
Active LEOFF 1 Members by Age and Benefit Cap Status



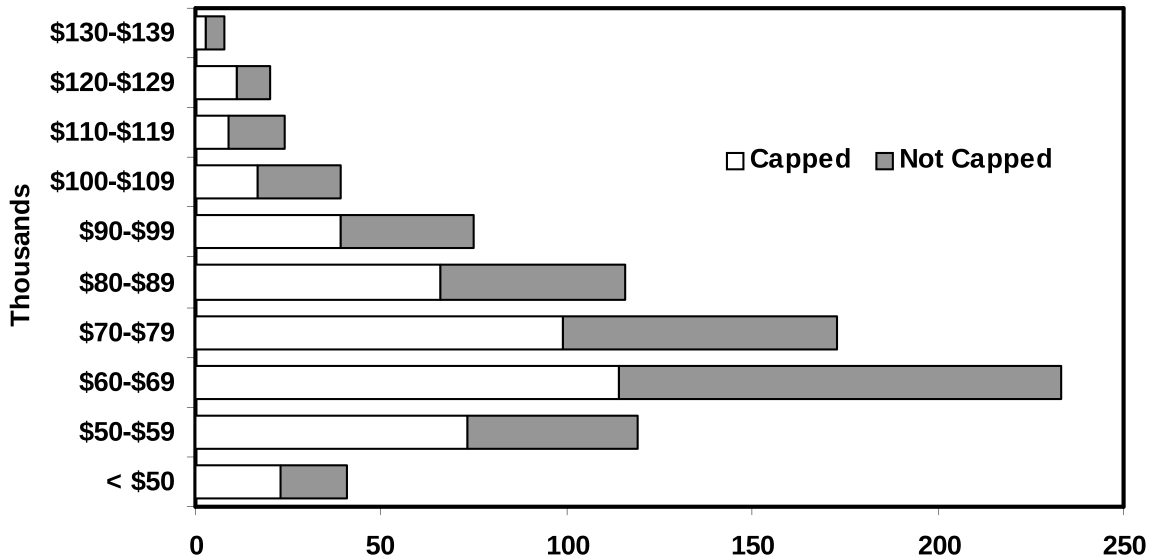
Service: In general, those members with over 30 years of service would not be subject to the benefit cap, while those with less than 30 years of service would. There are instances, however, of those who may have become members prior to February 19, 1974, but have had breaks in service. As a result, there are several members with relatively short periods of service who are not subject to the benefit cap (see Figure 6, next page).

Figure 6
Active LEOFF 1 Members by Service and Benefit Cap Status

Years of Service	Not Capped	Capped	Total
5-9	0	2	2
10-14	1	0	1
15-19	0	4	4
20-24	3	14	17
25-29	41	372	413
30-34	286	62	348
35 and over	63	0	63
Total	394	454	848

Salary: It could easily be assumed that those who are not subject to the benefit cap would have higher salaries than those who are subject to the cap. After all, they typically have longer periods of service that could translate into higher salaries. However, this does not appear to be the case. The salaries of those who are subject to the cap are not appreciably different from those who are not subject to the cap (see Figure 7 next page). For instance, among the 166 members earning $90,000 or more, 87 were not subject to the cap and 79 were. And of the 28 members earning $120,000 or more, 14 were not subject to the cap and 14 were. This is likely due to the steep salary/promotion schedule typical among police and fire organizations.

Figure 7
Active LEOFF 1 Members by Salary and Benefit Cap Status



As these characteristics show, the only significant variable having a bearing on whether a member's benefit is capped or not is their length of service. Those with more than 30 years of service as of 2004 are sure to have a benefit that is not capped. Those with less than 30 years of service are likely to have a benefit that is capped (save for those who gained membership before February 19, 1974, and had a significant break in service).

History

Two bills were introduced during the 2004 legislative session related to the 60 percent cap in LEOFF 1. HB 2416 proposed raising the limit to 70 percent of FAS and HB 2914 proposed eliminating the cap entirely; both bills received a hearing, but neither moved from committee.

Companion bills HB 1873 and SB 5901 were introduced in the 2005 legislative session that proposed rescinding the LEOFF 1 60 percent cap. Neither received a hearing.

Policy Considerations

Among the general policies found in the funding chapter (RCW 41.45) is the following: "Fund, to the extent feasible, benefit increases for all plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service." As of the 2004 valuation, the average remaining active member is already retirement eligible. For a plan that isn't fully funded, there would be scant time for members and employers to contribute to a benefit increase. Because LEOFF 1 is in surplus status at this time, any benefit increase would draw on that surplus. The cost of this proposal would increase the likelihood that the plan would come out of full funding in the future. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Another policy issue to consider is the inconsistent treatment of members within the same plan. While the provisional differences in LEOFF 1 and LEOFF 2 are typical of closed and open plans, it is rare for such differences to be present within the same plan.

A serious policy concern would be leapfrogging. One of the common criticisms of the Plan 1 design is that members' benefits are maximized at 30 years of service (2% × 30 years of service = 60% of AFC). Were the cap to be raised or eliminated in the LEOFF 1 Plan, members of the PERS and TRS Plans 1 may request a similar benefit increase, which would have a much higher cost.

Policy Questions

To help the committee decide whether to move forward with this issue, members may want to deliberate via the following issues:

- Have the original goals and/or incentives changed?
- Is this benefit improvement in keeping with the policies acknowledging the need for earlier retirement among police officers and fire fighters?
- Is there an overarching need to reward or retain long-tenured LEOFF 1 members?
- Could or should this issue be addressed outside of the retirement system?

- Would this benefit be retroactive? Would currently retired members with more than 30 years of service have their benefits adjusted?
- Would this spur retirees to return to active LEOFF membership? There are currently 638 service retirees under the age of 60.

Possible Options

If the committee wants to move forward with this issue, there are a number of approaches it could take. Here is a short list of possible options and the fiscal impact of each:

1. Eliminate the Benefit Cap

This option was originally priced in the fiscal note for HB 2914 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Removing the cap would increase liabilities in the plan by $22 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

2. Raise the Benefit Cap to 70 percent

This option was originally priced in the fiscal note for HB 2416 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Raising the cap from 60 percent to 70 percent would increase liabilities in the plan by $17 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

3. Raise or Eliminate the Benefit Cap with an Age Qualification

This option would allow members to accrue a benefit greater than 60 percent of their FAS as long as they served until at least 60 years of age. The LEOFF 1 Plan currently allows an unreduced benefit at age 50 with five years of service. Increasing the retirement age to 60 in order to receive an increased benefit should result in a savings component to each of the above proposals.

Eliminating the benefit cap with the age qualifier would increase plan liabilities by $11 million. Raising the cap from 60 percent to 70 percent with the age qualifier would increase plan liabilities by $8.5 million.

While an age qualifier would lower the liabilities related to these benefit proposals, it would probably also result in additional policy considerations. Age standards tend to result in "cliff" benefits – significant differences in benefits with very small differences in ages; a member who was 59 with 36 years of service would be eligible for a lesser benefit than a member who was 60 with 33 years of service. Would such a member be eligible for proportionate benefits?

Note: If the above proposals were to raise the benefit cap, but with an accrual that was less than the current 2 percent per year, the increased liability and contributions would be proportionate to the proposed rate of accrual relative to 2 percent. For instance, an accrual rate of 1 percent per year beyond 30 years of service would result in an increased liability half that of a 2 percent per year accrual.

4. *Retain the Current Benefit Cap*

This option adds no liability to the plan.

Stakeholder Input

Correspondence from:

Frederick W. Corlis, Board Member, Retired Fire Fighters of Washington (see Attachment).

Kelly L. Fox, President, Washington State Council of Fire Fighters (see Attachment).

Philip A Talmadge, Talmadge Law Group PLLC (see Attachment).

Richard Warbrouck, Retired Fire Fighters of Washington (see Attachment).

Committee Actions

In June, the Executive Committee of the SCPP recommended that this issue be heard by the full committee.

The full committee heard the first presentation of this issue at the July hearing. Questions from committee members warranted an additional presentation.

The full committee received an additional presentation at the September meeting.

Executive Committee Recommendation

At the October meeting, the Executive Committee of the SCPP moved to forward an updated bill eliminating the LEOFF 1 benefit cap to the full committee for their consideration.

Committee questions at the November hearing required additional analysis related to split contribution rates and service credit purchases in capped plans that would be made available at the December meeting.

Committee Recommendation

At the December 13th meeting, the SCPP recommended that a bill be forwarded to the legislature that repeals the LEOFF 1 benefit cap, reinstates member and employer contribution rates, and forms a group to work with the Department of Retirement Systems and the Health Care Authority to establish one or more funding vehicles for post-retirement medical benefits.

Pre-funding Post-Retirement Medical Benefits

An Overview by Laura Harper
Senior Research Analyst
December 13, 2005

Disclaimer

- This summary represents research from internet sources, some of which have not been verified for accuracy. Staff does not purport to be an expert on this topic at this time.

Reasons to Pre-Fund

- GASB 45
- Financial management and budgeting
- Intergenerational equity
- More benefit security
- Additional tax-favored retirement benefits

Ideal Funding Vehicle

- Tax-deductible employer contributions
- Tax-free accumulation of assets
- Full, unencumbered funding

Possible Vehicles

- 401(h) Account
- Health and Welfare Trust Fund Trust
  - 501(c)(9) Trust – VEBA
  - Section 115 Trust

401(h) Account

- Separate account under qualified pension plan
- Numerous requirements relating to funding of pension plan, accounting, and use of assets
- Contributions for medical benefits cannot exceed 25 percent of contributions for all pension benefits

401(h) Plan

- Account is protected as a trust
  - Co-mingled and invested with the retirement plan assets
- Must specify that after all benefit obligations are paid, any excess is returned to employers

Advantages of 401(h) Plan

- Employer contributions are tax-deductible
- Investment earnings are tax-exempt
- No vesting required
- May use excess pension assets

Disadvantages of 401(h) Plan

- Twenty-five percent contribution limit may prevent full funding
- Ability to transfer excess pension assets scheduled to expire 12/31/05
- IRS approval required
- Non-compliance has implications for pension plan

501(c)(9) Trust or VEBA

- VEBA: Voluntary Employees' Beneficiary Association
- IRS rules for funding, accounting, non-discrimination, and use of assets
- Separate and apart from government
- Employees of employers who opt in **must** participate

VEBA

- Legislature may establish policy guidance
- Benefits can be paid as defined benefits or based on individual account balances
- In WA, state agencies (not local employers) are currently authorized to participate in existing school district VEBA

Advantages of VEBA

- Employer contributions are non-taxable
- Investment earnings are tax-exempt
- No vesting required

Disadvantages of VEBA

- Time-consuming to set up
  - Need IRS approval
- Administratively complex
  - Requires control by employee members, independent trustee, or board of trustees
  - Federal law reporting requirements and rules apply

Section 115 Trust

- Section 115 provides tax exemption for income from an essential governmental function
- IRS private letter rulings say contributions to a trust to fund retiree health benefits fit the exemption

Advantages of Section 115 Trust

- Make-up of board of trustees is flexible
- Contribution level is flexible
- Is revocable
- Very few federal restrictions

Disadvantages of Section 115 Trust

- Government's creditors may be able to reach
- Has not been widely used
- Private letter ruling needed for favorable tax treatment

Other vehicles

- Separate account
  - May not be viewed as an offset to liabilities for disclosure purposes
- Insurance policies
  - No particular tax advantage
- Supplemental defined benefit pension
  - Like setting up a pension plan

Other Vehicles (continued)

- Health Savings Account
  - Only applicable to members covered by a high deductible health plans

Next Steps

- Identify stakeholders
- Form work group to determine program goals
- Choose consultant to help with necessary legal and IRS concerns
- Select and implement one or more funding vehicles

Time Frame?

- Minimum of six weeks in private sector, if plan is already IRS-approved
- Public sector takes longer because of need for stakeholder agreement
- IRS approval needed if a new trust or plan is formed

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-1104.2/06 2nd draft
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Addressing the law enforcement officers' and fire fighters' retirement system plan 1.

AN ACT Relating to the law enforcement officers' and fire fighters' retirement system plan 1; amending RCW 41.26.100 and 41.26.080; creating a new section; providing effective dates; and providing an expiration date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.100 and 1991 c 343 s 16 are each amended to read as follows:

A member upon retirement for service shall receive a monthly retirement allowance computed according to his or her completed creditable service credit years of service as follows: Five years but under ten years, one-twelfth of one percent of his or her final average salary for each month of service; ten years but under twenty years, one-twelfth of one and one-half percent of his or her final average salary for each month of service; and twenty years and over one-twelfth of two percent of his or her final average salary for each month of service: PROVIDED, That the recipient of a retirement allowance who shall return to service as a law enforcement officer or fire fighter shall be considered to have terminated his or her retirement status and he or she shall immediately become a member of the retirement system with the status of membership he or she had as of the date of retirement. Retirement benefits shall be suspended during the period of his or her return to service and he or she shall make contributions and receive service credit. Such a member shall have the right to again retire at any time and his or her retirement allowance shall be recomputed, and paid, based upon additional service rendered and any change in final average salary((~~: PROVIDED FURTHER, That no retirement allowance paid pursuant to this section shall exceed sixty percent of final average salary, except as such allowance may be increased by virtue of RCW 41.26.240, as now or hereafter amended~~)).

Sec. 2. RCW 41.26.080 and 2000 2nd sp.s. c 1 s 907 are each amended to read as follows:

((~~(1) Except as set forth under subsection (2) of this section,~~)) The total liability of the plan 1 system shall be funded as follows:

((~~(a)~~)) (1) Every plan 1 member shall have deducted from each payroll a sum equal to six percent of his or her basic salary for each pay period.

((~~(b)~~)) (2) Every employer shall contribute monthly a sum equal to six percent of the basic salary of each plan 1 employee who is a member of this retirement system. The employer shall transmit the employee and employer contributions with a copy of the payroll to the retirement system monthly.

((~~(c)~~)) (3) The remaining liabilities of the plan 1 system shall be funded as provided in chapter 41.45 RCW.

((~~(d)~~)) (4) Every member shall be deemed to consent and agree to the contribution made and provided for herein, and shall receipt in full for his or her salary or compensation. Payment less said contributions shall be a complete discharge of all claims and demands whatsoever for the services rendered by such person during the period covered by such payments, except his or her claim to the benefits to which he or she may be entitled under the provisions of this chapter.

((~~(2) No employer or member contribution is required after June 30, 2000, unless the most recent valuation study for law enforcement officers' and fire fighters' retirement system plan 1 indicates the plan has unfunded liabilities.~~))

NEW SECTION. **Sec. 3.** (1) The governor shall establish a joint executive task force on funding postretirement medical benefits for members of plan 1 of the law enforcement officers' and fire fighters' retirement system. The joint task force shall consist of seven members: The director of the department of retirement systems; the administrator of the health care authority; the state actuary; one representative of Washington cities, appointed by the governor; one representative of Washington counties, appointed by the governor; one active member of plan 1 of the law enforcement officers' and fire fighters' retirement system, appointed by the governor; and one retired member of plan 1 of the law enforcement officers' and fire fighters' retirement system, appointed by the governor.

(2) The joint task force shall elect one of its members to serve as chair of the joint task force.

(3) Joint task force members may be reimbursed for travel expenses as authorized under RCW 43.03.050 and 43.03.060.

(4) It is the intent of the legislature to create a funding vehicle to assist employers in providing postretirement medical benefits for members of plan 1 of the law enforcement officers' and fire fighters' retirement system. To that end, the joint task force is charged with reviewing private and public funding vehicles that would accept voluntary tax-advantaged employer contributions and permissible transfers of excess pension assets. The task force shall select one or more appropriate funding vehicles and coordinate with all necessary parties to achieve implementation. To the extent that further legislative authority is required for the implementation, the task force shall make its recommendations for proposed legislation to the appropriate committees of the legislature by no later than December 1, 2006. The task force shall submit its final report to the governor and appropriate committees of the legislature by no later than December 1, 2007.

(5) This section expires December 1, 2007.

NEW SECTION. **Sec. 4.** Sections 1 and 3 of this act take effect July 1, 2006.

NEW SECTION. **Sec. 5.** Section 2 of this act takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/11/06	Z-1103.2/Z-1104.2

SUMMARY OF BILL:

This bill would impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974 to 60% of their final average salary.

The bill would also resume 6% member and employer contributions to LEOFF 1 effective July 1, 2007.

Finally, the bill would form a joint executive task force to select and implement one or more appropriate funding vehicles for the LEOFF 1 post-retirement medical obligation.

Effective Dates: The cap removal and task force provisions become effective July 1, 2006. Contributions resume effective July 1, 2007. The task force provisions expire December 1, 2007.

CURRENT SITUATION:

Currently, the maximum retirement allowance for those who became members of LEOFF 1 on or after February 19, 1974 is 60% of their final average salary. Those who became members before February 19, 1974 have no such limit on their retirement allowance.

State contributions to LEOFF 1 ceased in 1999 when the plan's assets exceeded the plan's fully projected liabilities. Member and employer contributions ceased in 2000. Funding provisions require the resumption of contributions when the most recent valuation indicates the plan has unfunded liabilities.

Currently, local employers are responsible for providing post-retirement medical benefits to LEOFF 1 retirees. Currently there is no government-sponsored multi-employer funding vehicle being used for this obligation.

MEMBERS IMPACTED:

We estimate that 454 active members hired on or after February 19, 1974, out of the total 848 active members of this plan could be affected by the 60% cap portion of this bill. Additional members could be affected if they return to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $125 in monthly pension payments per person (based on a current annual salary of $75,222).

All active members of LEOFF 1 would be impacted by the resumption of 6% contributions.

ASSUMPTIONS:

We assumed that members with at least 30 years of service, who may be eligible for a disability retirement, will elect the proposed service retirement benefit with no cap in lieu of the 50 percent of pay tax-free disability benefit. The cost of this proposal was based on the change in the liability after this disability assumption change. We assumed that this proposed benefit change would also alter future retirement behavior in the plan. We subtracted 0.01 from the retirement rates from age 50 to 54 and subtracted 0.02 from the rates from age 55 to 59. The impact of the retirement assumption change is reflected in the cost of this proposal. We assumed that the 6% employer contribution would be paid by local employers and not by the state. We assumed that formation of the work group would have no impact on contribution rates or the administrative expense rate.

FISCAL IMPACT:

Description:

Removal of the 60% cap causes no immediate fiscal impact while the plan remains in a surplus, or fully funded, position. The current plan is expected to remain fully funded because the market value of assets exceed the liabilities by $365 million. The proposal to remove the cap would reduce the surplus, but as long as there is still a surplus on a market value basis, we would not expect the plan to come out of full funding. However, if there is some adverse experience due to the assumptions not being realized, the plan would be more likely to come out of full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

The collection of contributions from members and local employers would serve to mitigate this proposal's reduction of the plan's funding surplus, making it even less likely that it will come out of full funding in the future. The 6% member contributions and 6% employer contributions, effective July 1, 2007, together have a present value of about $5 million. The increase in liability without the contributions was $22 million. The increase after the contributions is $22 million minus $5 million, or $17 million.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

	System: LEOFF 1		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,330	$17	$4,347
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(336)	$17	$(319)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(385)	$17	$(368)

Increase in Contribution Rates: (Effective 7/1/07)

Employee	6.00%
Employer	6.00%
State	0.00%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	LEOFF 1
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2007-2009	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$2.2
Total Employer	$2.2
Total Employee	$2.2
2006-2031	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$4.2
Total Employer	$4.2
Total Employee	$4.2

State Actuary's Comments:

We have projected that this bill would use up part of the plan's surplus, but that it would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Law Enforcement Officers' and Firefighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

Reduced Retirement Rates										
Age	50	51	52	53	54	55	56	57	58	59
Retirement Rate*	0.08	0.06	0.07	0.07	0.09	0.14	0.14	0.14	0.21	0.21

*Male and female

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

December 13, 2005

TO: Members of the Select Committee on Pension Policy

FROM: Representative Bill Fromhold, Chair

RE: LEOFF 1 BENEFIT CAP

As you all know, removing the benefit cap in LEOFF 1 has been controversial. I have been talking with representatives of actives, retirees, and employers to facilitate a "package" of changes that would be a win-win for all concerned. To that end, I am suggesting that the SCPP recommend a bill in the 2006 legislative session that would accomplish the following:

1. Remove the LEOFF 1 benefit cap effective July 1, 2006.

2. Reinstate contribution rates (6 percent member and 6 percent employer) on July 1, 2007, (the beginning of the upcoming biennium, when new rates would be set for all systems).

3. Establish a work group of active members, retirees, employers, legislators, and professionals that would select and implement one or more appropriate funding vehicles for the LEOFF 1 post-retirement medical obligation by July 1, 2007. This work group would be staffed by the Office of the State Actuary with assistance from tax counsel.

If the committee is in agreement, I suggest a motion that would direct staff to prepare legislation incorporating these recommendations. I have spoken with the State Actuary about this proposal. He has indicated that his potential fiscal note for such a bill, if necessary, would indicate the need for some additional dollars to support this effort, particularly in terms of utilizing tax counsel to meet IRS requirements.

Thank you for your consideration.

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(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Burkhart, Kelly

Subject: FW: SCPP. Lifting the Cap On LEOFF I

Subject: SCPP. Lifting the Cap On LEOFF I

October 13, 2005

Representative Bill Fromhold, Chair
Select Committee On Pension Policy

Representative Fromhold and Committee Members,

I am a board member of the Retired Fire Fighters of Washington and these are my thoughts and concerns which may or may not represent the members beliefs in general. However I am not writing this letter as the spoke person for or of the organization.

First of all I would like to say there have been changes to the pension system several times. Originally there were the prior acts people who had certain pension rights. In March of 1970 the Leoff I system was created and thus creating a new system for new hires. Prior act personnel retained certain parts of their previous pension system of which Leoff I only new hires did not receive. In 1974 changes to the Leoff I system were made which capped the service pension portion to a maximum of 60%. Then in 1977 the Leoff I system was closed and a new system, Leoff II, was created which had totally different regulations. Now 31 years later those few people left with in the 1974 system, 454, want you to change the system for their benefit, something that I believe is unprecedented.

At the July 19th. SCPP meeting I testified before the committee as did others. During testimony I was surprised to hear post 1974 Leoff I members state that they could not live on the 60% pension that they qualify for. Several members said that if you did not raise the cap that they would have to retire, with a 60% pension, and go to work somewhere else to be able to support themselves.
Over 50% of the 454 people left, I understand, are Captain and above and many are in Appointed Positions which do not require any competitive examination as a qualification for the job, pure politics. It is my opinion that this places them in the $80,000 to 120,000 per year salary or more. At 60% pension that entitles them to a monthly pension benefit of $4,000 - 6,000 or more plus medical benefits. To open the door for 70-80% pensions of these high paying positions while they have not contributed one cent to the system in the last 5 years and will not do so in the future is poor policy at best. At a time when Pers I is so far Under Funded it appears to me this idea of lifting the cap and setting a precedent for the other pension systems to follow is not only a poor idea & poor policy but not fundamentally sound or good judgment for the State or the pension systems.

If the SCPP decides to support this practice you are creating a burden on the entire system for the benefit of a few. Placing the already retired members, who paid their contributions their entire careers, and the system in jeopardy. The actuary has stated that the pension system is like a moving target always changing and could be in trouble if the % of investment gain drops from 8% to 7.3%. No one knows what the future holds. Just consider, if you would for a moment, what would have happened if the Legislature had removed the so called excess from the Leoff I system some 5,6,7 years ago as they were looking to do. The system dropped approximately $1.2 Billion, how would the state have come up with that money today to replace and fund the system.

While we are struggling to keep our pension systems sound private companies are looking to go bankrupt and dump their obligations of their retirees onto the government at a 50% reduction. If we allow our systems to get in trouble will our bond rating go in the toilet. It appears to me there is no reasonable ideology to remove the cap or do anything else that changes the pension systems in the state, including buying 5 years of service or any other idea that gives more money to the individual retiree at the end of their respective careers.

Today there is already an inequity between the systems, Leoff I & Leoff II, do to the contribution holiday for Leoff I members. They have already incurred 10% service credit without making a contribution to the system. To now decide to lift the cap thus allowing them to accrue more service credits of high paying positions and administrative appointments without paying into the system is without a doubt in my opinion poor Physical Responsibility on the Legislatures part. These individuals will receive very good pensions as it is $4-6000 per month with medical benefits so what is the reasoning behind this idea of lifting the cap besides greed.

The Retired Fire Fighters of Washington have in the past not supported this policy and continue to do so at the present time.

Thank You

Frederick W. Corlis
Board Member of the RFFOW

Affiliated with: AFL-CIO
International Association of Fire Fighters
Washington State Labor Council

Washington State Council of Fire Fighters

September 26, 2005

Chair Representative Fromhold
Vice-Chair Senator Fraser
SCPP Committee Members

Subject: Removal of LEOFF 1 Service Credit Cap

The Washington State Council of Fire Fighters (WSCFF) respectfully requests that the Select Committee recommend HB 1873/SB 5901 (LEOFF 1 Cap removal) to the 2006 Legislature. Removal of the service credit cap for LEOFF 1 members hired after February 18, 1974, provides service credit accrual equity with all other LEOFF 1 participants. This bill has no negative impact for any represented group, i.e., Retired Fire Fighters of Washington (RFFOW), retired LEOFF 1 members, active LEOFF 1 members, employer groups, or the state. We have attempted, without success, to convince certain retired LEOFF 1 members to reconsider their position to oppose this proposal.

The WSCFF letter dated July 18, 2005, addressed the policy questions put forth by the Executive Committee on June 21, 2005. Rather than reiterate the supporting evidence that removal of the cap does meet policy considerations, I would like to concentrate on three factors:

- The continuity and retention of institutional memory within our Public Safety provider organizations is important. LEOFF 1 Fire and Police members are highly respected and regarded among their peer groups and their communities. What purpose does it serve to deny service credit to so few of these affected individuals? The retention of valued employees far outweighs other concerns.
- Currently, the employer is relieved of pension contributions for these affected members. This was a legislative proposal, not a scheme advanced by LEOFF 1 members! Encouraging retirement by capping service at thirty years creates an environment whereby the employer replaces the retired employee with an employee who requires contributions from the employer *and the state*.
- LEOFF 1 pension modifications have no bearing on contribution rates for the employers or members. Rates for the employers and members had always been 6% for each until contributions were suspended in mid 2000. This suspension occurred primarily because the state, employers, and members had made sufficient contributions to meet all future obligations. The legislature correctly links contributions (or the suspension thereof) to the ability of this closed system to meet its future obligations. Any attempt to link LEOFF 1 pension modifications to a reinstatement of contribution rates has been shown to be speculative and inaccurate.

Kelly L. Fox, President • Greg B. Markley, Secretary-Treasurer
1069 Adams Street Southeast, Olympia, WA 98501 • 1-800-572-5762 • (360) 943-3030
Fax (360) 943-2333 • E-mail: wscff@wscff.org • Website: www.wscff.org

Removal of the service credit cap would benefit a minimal number of our membership - approximately 250 out of more than 7,000 members. In the interest of fairness and equity to the fire fighters affected by the cap, this has been a legislative priority from our membership for the past three years. The RFFOW has suggested that retention of any LEOFF 1 member is a detriment to LEOFF 2 members. For the record, the WSCFF is unanimously supportive of this proposal, this despite the fact that 96% of the membership is unaffected by the proposed change. Any suggestion that the proponents of the legislation are "selfish" or would be "abusive" is unfounded and most certainly misplaced.

We have supported the committee's recommendation during the last interim to add a new benefit to the surviving ex-spouses of deceased LEOFF 1 members funded from the system surpluses. This year, the SCPP has the opportunity to recommend legislation that retains institutional memory within the public safety community and provides service credit cap accrual equity within LEOFF 1, utilizing a portion of the same surplus.

We ask for your support in forwarding this important legislative proposal. If you have any questions, please contact me or WSCFF Legislative Liaison, Bud Sizemore.

Respectfully,

Kelly L Fox

Kelly Fox
President

opeiu23/afl-cio/dag

RENTON FIRE FIGHTERS · Local 864

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS AFL-CIO

P.O. BOX 67 • RENTON, WASHINGTON 98057-0067 • www.iaff864.org

RECEIVED

OCT 26 2005

Office of
The State Actuary

October 10, 2005

To the members of the Select Committee on Pension Policy

During the last two legislative sessions a group of members from the Washington State Council of Firefighters have been attempting legislation to address an inequity for long serving LEOFF I members regarding the 30 year (60%) cap for a service retirement. The members affected were hired between 1974 and the end of LEOFF I in 1977. All LEOFF plan members (I & II) hired prior to 1974 and after 1977 do not have a cap on their service credit accrual. Renton Firefighters Local 864 represents participants of pre 1974 LEOFF I, LEOFF I participants affected by the service credit cap, and LEOFF II participants. All of our members support the removal of the service credit cap.

During the years of the cap the State was experiencing a significant number of early retirements from the newly formed LEOFF I system. The service credit cap was an effort to limit the liability to the State. Unfortunately, this action did not do anything to stem the tide of short-time members taking disability retirements from the system.

In fact, it is some of those members who are now lobbying against the passage of this legislation, stating in writing to you that this is a greedy attempt by a small group to take a free ride on the system. If you check the record, you will find that the more vocal of these members paid into LEOFF I for less than 15 years, and have been collecting fully from the system for more than 20 years. They served under the prior pension act (Chapter 41.18 RCW), and when LEOFF I (41.26 RCW) was created in 1970/1971, the prior funds did NOT transfer over to the new system. In fact, the system that did exist continues to pay additional benefits to some of the members receiving full LEOFF I retirement benefits.

We submit to you that the small group of working LEOFF I members are not greedy people seeking a free ride. They are loyal, experienced public servants who want to receive retirement credit for serving more than 30 years in their chosen profession. You have received testimony in the past which indicates that every year the state does not pay retirement benefits is a significant savings. In speaking to the State Actuary at the most recent LEOFF Educational Association Conference, it appears that a cost was placed on this issue because removing the 'cap' was compared to a person taking a 50% disability retirement. The people still working, after 30 years of service, have proven that they do not want to take the disability which so many have done before. They would like to proudly receive the service retirement that they have earned.

Thank you for our consideration in this matter.

Sincerely,

Craig Soucy
President Renton Firefighters Local 864

Retired Firefighters of Washington
15310 163rd Ct. SE
Renton, WA 98058-8122
425-226-3793
rffow@attbi.com

RECEIVED
DEC 8 - 2005
Office of
The State Actuary

Richard Warbrouck
President

Bob Burtch
Secretary

December 8, 2005

Rerpresentative Bill Fromhold, Chair
PO Box 40600
Olympia, WA 98504-0600

Dear Representative Fromhold,

As you prepare to vote on removing the sixty percent CAP on LEOFF 1 service pensions I would like you to consider that no fire department or police agency has testified that this change is necessary for them to maintain a viable workforce. All other pension systems have a sixty percent CAP except LEOFF II. When the LEOFF II system was developed it was not practical to have the service retirement capped at sixty percent because of the retirement age of 57. If a police officer or firefighter was hired at 21 years of age they were required to work for 36 years until age 57 making a sixty percent CAP unacceptable. If we remove the CAP now, how will we address those LEOFF 1 members who were hired in 1974 and who have now retired after 30 years of service in 2004 or 2005? The members still working have earned 5 years of service credit equaling 10 percent of salary at retirement without having made a pension contribution.

This bill would provide an additional 5 years or more of service credit that would equal 10% or more of salary at retirement. The additional 10% on a salary of $80,000 per year would equal an additional $8,000 per year or $666 per month at retirement.

The proponents have testified that there is no cost for this increase, maybe because the Fund has a surplus. The actuary however has placed a 17 million dollar fiscal note on the bill. If the state as suggested is the ultimate heir to the Fund one could conclude that the state is responsible for the 17 million dollar fiscal note.

Many of the members who would benefit from this change are now senior members in fire departments and police agencies. They are now working in appointed administrative positions or can be appointed to these positions without any competitive examination. These positions have higher salaries that relate to increased retirement benefits as the retirement pay is based on the salary of the position held at the time of retirement.

Representative Conway asked during the November meeting if there is a retirement rehire provision in the LEOFF law. There is not, but if the CAP is removed any LEOFF 1 member who has retired on a service or disability pension and who was hired after 1974 can return to work. Their pensions would be terminated and they would begin earning additional service credit when reemployed. If they were retired on a disability they would, when reemployed, earn 2% per year of service credit for the number of years they were on a disability pension.

The City of Tacoma recently rehired an assistant police chief who had been on a disability pension for 10 years. When reemployed he was credited with 2% per year of service credit for each year that he was on a disability retirement. He worked for only a few days and retired on a service pension with an additional 20% of retirement pay based on the current salary of the assistant chief of the Tacoma Police Department.

The City of Edmonds has hired a 54 year- old police patrol officer who had retired from another department. He was just featured in the local paper with a statement from the city stating that they were pleased to have gained from his training and work experience.

There is no defined fiduciary responsibility in the statute for the members of the Select Committee on Pension Policy, however the members do feel that there is an implied fiduciary responsibility. To make a change without considering the far-reaching implications would be bad policy and would invite ridicule from the members of the media.

A solution would be to create a LEOFF 1 medical fund with the employees and the employers contributing 6% of salary equal to the previous pension contribution. This would be totally separate from the LEOFF 1 Fund. The Fund would grow from the day it was established and would not be subject to the changes in value of the LEOFF 1 Pension Fund. The medical fund could be administrated by the Department of Retirement Systems. Any employers after having paid a predetermined amount for a medical treatment or for long- term care would apply for a grant from the medical fund to offset their cost. If we had implemented this program in 2002 when we first discussed this issue we would have accumulated approximately $19,269,000.00 in the first two-year period. The nineteen million dollar fund invested at 5% would earn $963,000,00 per year in interest. As you can see, this would have had a real impact in reducing the employer's liability for medical expenses.

We are now three years down the road and would of course have to reevaluate the figures to see what the advantages would be if such a fund was developed. Keep in mind that the 6% contribution would not be that costly for any one employer as no one employer has that many active LEOFF 1 members.

If this was possible:

1) The CAP could be removed.
2) The employees and the employers would be contributing 6% of salary and the members could earn additional service credit.
3) The employers would gain some relief for the medical expenses that they have been asking for.
4) The 17 million fiscal note for removing the CAP would still however come from the LEOFF 1 Fund.

I would be willing to participate in any future discussions as to how such a plan could be developed and administered.

Thank you for your consideration.

Sincerely,

R.C. Warbrouck

Richard C. Warbrouck

Burkhart, Kelly

Subject: FW: December SCPP Meeting

From: Frederick W. Corlis
Sent: Friday, December 09, 2005 12:39 PM
To: Fromhold, Rep. Bill
Cc: Bailey, Rep. Barbara; Mattingly, Corky; Banks, Elaine; millerd@wsdot.wa.gov; Clement, Lois; Moore, Victor; Conway, Rep. Steve; Crouse, Rep. Larry; glen.olsen@clark.wa.gov; Fraser, Sen. Karen; Pridemore, Sen. Craig; Rae, Diane; Goeke, Leland; Thompson, J. Pat; Keller, Bob; Matheson, Sandra
Subject: December SCPP Meeting

SCPP Committee Members,

The issue of lifting the Cap on post 1974 members has been on the table now for quite sometime.

The following are points that I believe are important to consider.

1. The LEOFF I system is a closed system and is currently in the black, who knows how long that will last, however other systems are underfunded. Lifting the Cap will set a precedent that will most likely be passed on throughout the States Pension Systems.

2. Those in the LEOFF I System have not paid into the system since 2000 and continue to not do so while earning service credit. A Precedent that is seen in No Other System.

3. These members will receive up to 60% of their final years salary, not averaged over a number of years as in other plans, and receive full medical benefits for the rest of there respective lives.

4. The vast majority of LEOFF I members, already retired, received 60% or less when they retired.

5. I am told on a weekly basis that they can not live on 60% of their salary and some have testified before this committee the same thing in the past. How then can and are the retired LEOFF I members making it now and in the past. I know of none on Welfare, do you.

6. There is also the issue, now under consideration, to allow members to buy 5 years of service credit upon leaving the system. That will allow them to add another 10% to their pensions. They will have to pay both sides of the contributions to the system to do so, which they have not been paying for the last 5 years, and It will only take 6 years for that to become a push.

7. These members have the opportunity to retire at 60% of there final salary at 50 years of age not like other systems that have to go until they are 65 for the same 60%.

8. If the committee feels it must do something then I would suggest that a **Retire/Rehire** program would be a good one to put in place. Let them retire and come back to work for wages the next day with out gaining further benefits.

It is the opinion of many of the RFFOW that these issues could Jeopardize the system that is currently in the black. The same system that has gone from 136% of funding to 109% of funding in the last 5 years. One never knows what tomorrow brings but many of us feel it is time to leave all the systems alone for the good of all the members active and retied.

With the private sector looking to dump their pension system obligations it only behoves all of us including the legislature to be prudent and not allow the State to get into any further pension troubles then it currently is today.

Thank You

Frederick W. Corlis
RFFOW Board Member

The
Washington State
Law Enforcement Association

November 15, 2005

Chair Representative Frormhold
Vice-Chair Senator Fraser
SCPP Committee Members

Subject: Removal of LEOFF I Service Credit Cap

The Washington State Law Enforcement Association (WSLEA) respectfully requests that the Select Committee recommend HB 1873/SB 5901 (LEOFF I Cap removal) to the 2006 Legislature. Removal of the service credit cap for LEOFF 1 members hired after February 18, 1974, has no negative impact for any represented group, i.e., Retired Fire Fighters of Washington (RFFOW), retired LEOFF 1 members, active LEOFF 1 members, employer groups, or the state. WSLEA has identified three important points:

- The continuity and retention of institutional memory within our Public Safety provider organizations is important. LEOFF 1 Fire and Police members are highly respected and regarded among their peer groups and their communities. What purpose does it serve to deny service credit to so few of these affected individuals? The retention of valued employees far outweighs other concerns.

- Currently, the employer is relieved of pension contributions for these affected members. This was a legislative proposal, not a scheme advanced by LEOFF 1 members. Encouraging retirement by capping service at thirty years creates an environment whereby the employer replaces the retired employee with an employee who requires contributions from the employer and the state.

- LEOFF 1 pension modifciations have no bearing on contribution rates for the employers or members. Rates for the employers and members had always been 6% for each until contributions were suspended in mid 2000. This suspension occurred primarily because the state, employers, and members had made sufficient contributions to meet all future obligations. The legislature correctly links contributions (or the suspension thereof) to the ability of this closed system to meet its future obligations. Any attempt to link LEOFF 1 pension modifications to a reinstatement of contribution rates has been shown to be speculative and inaccurate.

P O BOX 7369 - Olympia, WA 98507-7369 - 1-800-227-9753 - FAX 360-754-8114
www.wslea.org

In the interest of fairness and equity to the LEOFF 1 law enforcement officers and fire fighters affected by the cap, this has been a legislative priority from our association for the past three years.

This year, the SCPP has the opportunity to recommend legislation that retains institutional memory within the public safety community and provides service credit cap accrual equity within LEOFF 1, utilizing a portion of the same surplus.

We ask for your support in forwarding this important legislative proposal. If you have any questions, please contact me or WSLEA Legislative Liaison, Mike Matson.

Respectfully,

Bruce A. Morrison

Bruce A. Morrison
Chairman of the Board